



Louis Berger

Effective Contracting for Recycling Services

Mary Chamberlain
Louis Berger Group

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Presentation Overview

- Overview of the procurement process
- Privatization and collection options
- Steps to effective contracting
- Revenue Sharing/Risk Sharing

Commonly Heard Statements

*“The private sector can do it better,
cheaper, faster”*

or

*“No private hauler is going to provide the kind of service
that our public crews can”*

Where Do You Fit In?

- Do you contract for collection of recyclables?
- Do you contract for processing of recyclables?



Potential Strengths of Privatization

Private entities may be better able to:

- Raise capital for facilities, vehicles, equipment
- Maximize efficiency, minimize costs as well as fully utilize facilities and equipment for profit
- Achieve economies of scale
- Access innovative technologies
- Establish greater market leverage
- Industry expertise

Potential Drawbacks of Privatization

- Private companies will need to incorporate profit into their price
- Private companies pay sales tax on equipment so they incorporate that cost into their pricing (longer contract terms help recoup costs)
- Concerns re: customer service/quality of service, compared to local government crews
- Local government loses some control/flexibility

Competitive Procurement Process

- Fair and transparent process
- In line with state and local guidelines
 - Request for Proposals – Allows flexibility in responses
 - Expression of Interest – Testing the waters
 - Request for Bids – Just tell me how much

RFBs vs. RFPs

Request for Bids	Request for Proposals
Must select “low bid”	Selection based on consideration of multiple factors – not price alone
Must specify requirements precisely and in detail	Includes general description of services desired, but allows some latitude in vendor responses
Draft contract included	Draft contract not required, but recommended
Simplifies evaluation, selection and negotiation effort	More complex evaluation required
More difficult to challenge the award on procedural grounds	Easier to challenge on procedural grounds – more subjective

Organized Collection

- Government provides service either directly, with local government crews, or via contract or franchise agreement
- If exclusive, one hauler serves entire city, county or district



Organized Collection

Pros

- Contract award based on ability to provide service and price
- Local government can specify services and enforce
- Reduced traffic
- Increased efficiency for the hauler = lower rates?



Cons

- Local government must administer/ manage
- Customer has no choice
- Small haulers may not be able to compete
- Loss of competition in long run?

Open (Subscription) Collection

Pros

- Maximum customer choice
- Small haulers have a chance

Cons

- More trucks on the roads
- Lack of uniformity of service – some haulers accept different materials for recycling
- Limited opportunities for local government oversight
- Less efficient = higher rates?

Franchising

- Granting exclusive or non-exclusive collection service rights to one or more haulers
- Often involves a franchise fee paid to local government
- Usually involves franchisees billing customers directly
- May be negotiated or competitively bid
- Sometimes operate on a subscription basis
- Service rates may be set by local government

Steps to Effective Contracting

1. Precisely define services to be performed
2. Determine contractor pool/market position (may be less choice in rural areas)
3. Prepare a detailed, clear RFP or RFB
4. Use a fair and transparent contractor selection process
5. Negotiate a partnership-oriented contract
6. Share risk in equitable fashion
7. Manage compliance with partnership approach

Major Elements of a Contract

- Collection service specifications
- Recyclable materials collected (initial & future)
- Specify which facility/MRF to deliver materials to
- Detailed performance specifications
- Employee conduct and appearance
- Procedure for handling complaints

Collection Service Contract Specifications

- Start-up schedule (important if ordering trucks or carts)
- Holidays
- Handling of complaints
- Record-keeping/reporting requirements
- Employee training
- Public education (if included) – how often, City-approved
- Regulatory compliance
- Return of carts/curb placement

Processing Contract Specifications

- Materials to be processed
- Disposal of residue
- Materials marketing requirements
- Public access for drop off of material
- Load inspection and rejection policies
- Weighing/reporting responsibilities
- Hours of operation/vehicle access
- Revenue share
- Processing fee

Processing Contract Specifications (cont'd)

- Provision of public education facility/tours
- Staffing requirements
- Safety procedures
- Site management (litter and rodent control, grounds maintenance, etc.)
- Storage of material
- Prevention of stormwater runoff

Standard Contract Provisions

- Penalties for poor performance/ liquidated damages
- Contingency (for natural disasters or any unforeseen circumstance such as loss of markets)
- Opportunity for amending contract
- Performance security (bond)
- Price escalators/adjustments (CPI, fuel index)
- Terms of agreement (yrs), renewal options?
- Insurance requirements
- Change of law, amendments, waivers
- Assignment (City must approve subcontractors)

Potential Selection Criteria

- Cost
- Responsiveness to RFP or RFB
- Technical soundness of response
- Innovativeness (RFP)
- Related experience
- Facility/operational capacity
- Qualifications (organization, management)
- Financial stability
- References

Economic Incentives to Increase Performance

- Per-ton bonus for recovered tonnage over a base amount to encourage increased tonnage and/or less residue
- Require minimum recovery levels or pay liquidated damages
- Compensate based on tonnage recovered as opposed to a per-household fee

Revenue Sharing

Basic Components to a Revenue Sharing Formula:

- Tons per month (by commodity or total commingled)
- Published index price (based on specified commodity grade) or Actual price (blended value for single-stream)
- Processing fee (\$ per ton)
- Percent revenue share

Tons x Market Price

- (minus) Tons x Processing Fee

= Contractor's Net Revenue

x Rev Share %

Revenue Sharing (cont'd)

- Tons per Month – Need the composition of materials to determine revenue. Recommend an annual recycling audit/composition study.

Commodity	% of Ton
Newspaper	39.32%
Mixed Fiber	9.77%
Corrugated Cardboard	7.16%
Aseptic	0.03%
Aluminum	1.43%
Tin	2.72%
PET	3.48%
HDPE Natural	1.00%
HDPE Color	0.75%
Plastics #3 - #7	0.71%
Rigid Plastics	0.00%
Glass	29.85%
Residual	3.78%

Published Market Indices

- www.recyclingmarkets.net
- Pulp & Paper Week (OBM Yellow Sheet)
- American Metals Market
- vs. Actual prices received (blended value for single-stream)

Actual Prices - Recyclable Materials Offset (RMO)

How it is Calculated:

- First, a Blended Value per ton for all the recyclable materials is determined based on actual materials sales and mix of materials processed and sold.
- Second, a Processing Cost is determined by the Processor or negotiated between the Processor and the customer.
- $RMO = \text{Processing cost} - \text{percent of the Blended Value agreed for revenue sharing}$.

Recyclable Materials Offset (RMO) cont'd

Month	Blended Value per Ton	80% City Share per Ton	Processing Cost per Ton	Net RMO per Ton	Customer's Recyclables	Net \$ to City (Contractor)
A	\$50	\$40	\$57.25	(\$17.25)	400 tons	(\$6,900)
B	\$80	\$64	\$57.25	\$6.75	400 tons	\$2,700

The RMO can be positive if the blended value is higher than the processing costs or negative if the value is lower than processing costs.

Because the Blended Value is based on actual sales of all materials, it may be more difficult for the City to monitor pricing compared to a published index approach.

Recommended Strategies for Local Govt's

- Closely monitor the Contractor's monthly calculation for Blended Value commodity price.
- Negotiate a fixed or ceiling per ton for Processing Cost through the term of the agreement.
- Negotiate a floor price for the Blended Value price to limit RMO costs.

Escrow Account/Revenue Bank

Monthly revenue share is calculated as follows:

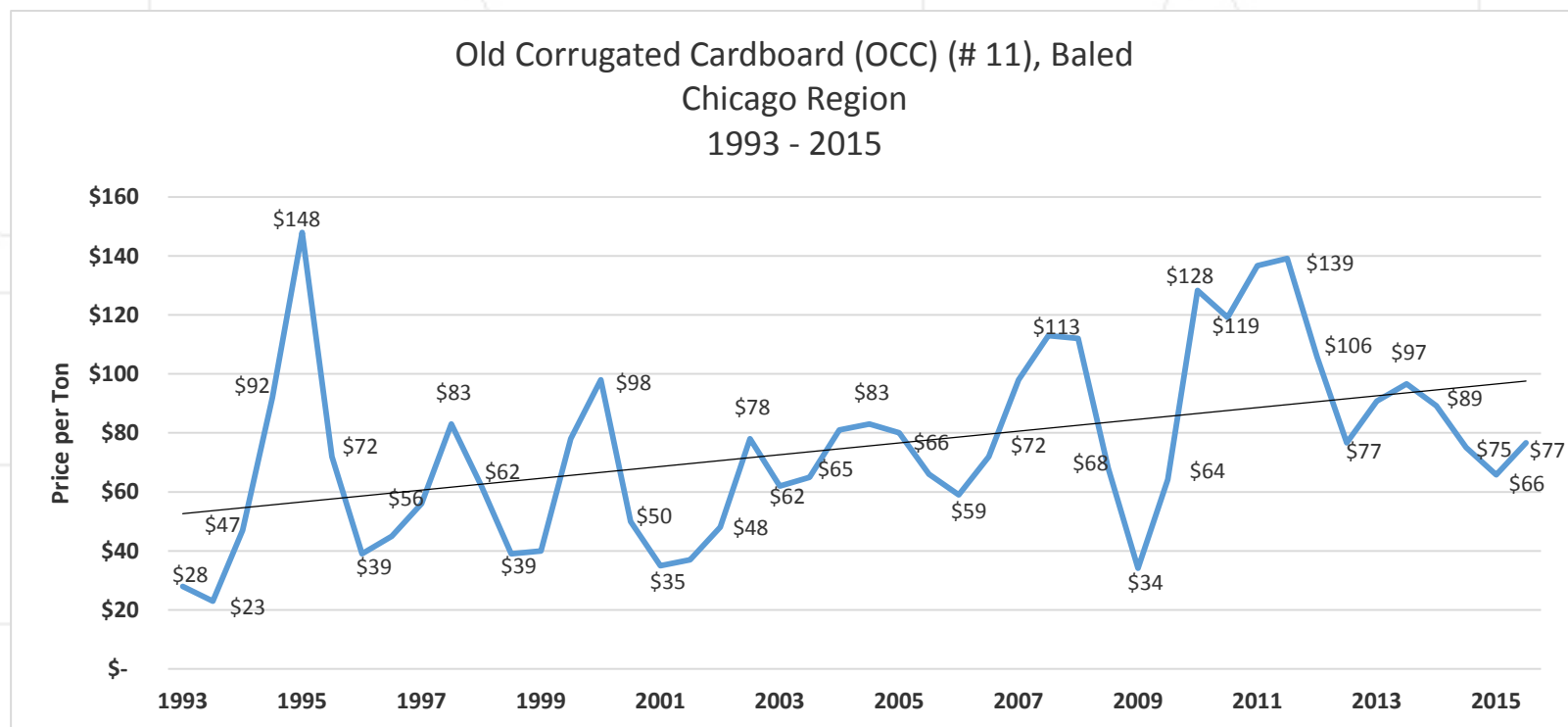
- Published index (\$ per ton based on specified commodity grade)
- Minus processing fee
- Multiplied by commodity tonnage for that month
- Minus % revenue share
- Equals net revenue share credit (or shortfall) to City
- Contractor records the calculated monthly revenue share “credit” or “shortfall.”
- The cumulative total is carried forward each month as an escrow amount.
- If, at the end of the contract, the total balance is positive, the Contractor remits revenue to the customer.
- If the total balance is negative, the Contractor may propose to assume the shortfall with no amount due to the customer.

Escrow Account/Revenue Bank - Example

Month	Processing Fees	Revenue Share	Monthly Net	Cumulative Total
January	\$25,000	\$20,000	(\$5,000)	(\$5,000)
February	\$23,000	\$21,000	(\$2,000)	(\$7,000)
March	\$25,000	\$27,000	\$2,000	(\$5,000)
April	\$26,000	\$28,000	\$2,000	(\$3,000)
May	\$27,000	\$30,000	\$3,000	\$0
June	\$28,000	\$32,000	\$4,000	\$4,000
July	\$30,000	\$34,000	\$4,000	\$8,000
August	\$32,000	\$37,000	\$5,000	\$13,000
September	\$31,000	\$39,000	\$8,000	\$21,000
October	\$29,000	\$27,000	(\$2,000)	\$19,000
November	\$27,000	\$23,000	(\$4,000)	\$15,000
December	\$23,000	\$19,000	(\$4,000)	\$11,000

Recycling Program Principles

- Focus on the long term historical pricing for recyclable materials markets.



Recycling Program Principles

- Be prepared to share the risks of market volatility.
- Focus on the environmental benefits of recycling -- energy savings, GHG reduction, and landfill diversion.



Contact Information

Mary Chamberlain
Louis Berger Group
(813) 513-9301
mchamberlain@louisberger.com



Louis Berger